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Report Highlights:

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Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

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MEXICAN CONGRESSMEN PROPOSE HARMONIZATION OF AGRICULTURAL SUBSIDIES

During the 30th annual meeting of the North American/European Union Conference (CANUE), Mexican Senator Jeffrey Jones, President of the Subcommittee on International Relations of the Senate Agriculture Committee, called for harmonization of agricultural subsidy policies between countries so that inequality in the level of support could be eliminated and countries could compete on a level playing field. Other attendees, notably Jose Bonilla Robles, President of the Senate Committee on Rural Development, and Armando Paredes Arroyo, President of the Mexican Farm Bureau, called for more support for the rural sector, a renegotiation of the NAFTA agriculture chapter, and a \$7 billion peso (US\$70 million) agricultural armor package. (Source: *Reforma*, 10/15/02)

MEXICO WILL USE NAFTA AND WTO RULES TO ENSURE THAT THE UNITED STATES COMPETES FAIRLY IN AGRICULTURE

At a seminar on "Opening of the NAFTA Agriculture Sector," Luis Ernesto Derbez, Secretary of the Ministry of Economy (SE), stated that Mexico would use NAFTA and WTO rules to confront unfair competition, especially unfair competition that might result from agricultural subsidies under the U.S. Farm Bill. Derbez added that Mexico, or rather the executive, legislative, and judicial branches, have the opportunity to come up with a coordinated strategy to deal with the 2003 opening. Meanwhile, Angel Villalobos, Under Secretary of International Negotiations at SE, remarked that a revision of NAFTA was being considered, as certain legislators had requested. (Source: *Reforma*, 10/17/02)

AGRICULTURE AND IMMIGRATION PART OF MEXICO'S AGENDA AT APEC

During a meeting of the Mexican Foreign Relations Secretary, Jorge Castañeda, with U.S. Secretary of State, Colin Powell, Castañeda stated that agriculture and migration policies will be the major topic of discussion for the Government of Mexico (GOM) at this weekend's economic summit in Los Cabos, Mexico. He said that President Fox is going to link the immigration issue with the NAFTA provision that removes duties on agriculture products when he meets with U.S. President George W. Bush. Another issue will be the subsidies the United States gives its farmers. Presidents Fox and Bush are scheduled to meet privately Saturday, October 26, 2002, during the 10th annual Asia Pacific Economic Cooperation (APEC) summit, where the leaders of 21 nations bordering the Pacific Ocean will convene to

discuss a wide range of regional priorities. "President Fox will bring up to President Bush a strong and vigorous position on the problems that Mexican agriculture will face starting January 1, 2003, when Mexican import tariffs will be eliminated as well as the subsidies (US\$190 billion) that the United States gives its farmers," he said. "Secondly, President Fox will outline that in view of this difficult situation in the agriculture sector, the migration topics will be even more important and relevant than before. It is more urgent to return to the negotiation table to look for a great migration agreement; Presidents Fox and Bush had come to certain agreements on this issue as of September 7 of last year," Castañeda pointed out. "The important thing is that we advance in these two areas. President Fox has been very clear on the topic of the subsidies and the agricultural armor-plating. This armor has the purpose of supporting and protecting Mexican agricultural growers after the tariff reduction of January 1," he specified. On the other hand, Powell briefly stated that: "The goals that Secretary Castañeda has outlined and which are the same as President Fox, are mutually shared by President Bush. We are committed to do everything possible to solve the migration issues, which will take many years to be solved and we hope to continue working with Fox and Castañeda in this common goal," he said. (Source: *Reforma* and *El Universal*, 10/24/02)

TERROR FIGHT, ECONOMIC GROWTH AND TRADE ON THE APEC SUMMIT'S DECLARATION

Although the fight against terrorism continued to be the focus of the APEC summit, leaders declared resoundingly that tighter security should not derail free trade efforts. They promised to "maximize political support for the pursuit of free and open trade and investment." They also called for the abolition of agricultural subsidies in the United States, Europe and Japan that were widely criticized by developing nations and others at the summit. Also, Pacific Rim leaders headed home with commitments to reduce poverty with trade, saying jobs and education are among their best weapons in the global fight against terrorism. (Source: *Reforma*; *El Financiero*; *El Universal* and *The News*, 10/28/02)

MEXICO ANALYZES U.S. SUBSIDIES ON AGRICULTURE

President Vicente Fox stated that his government has almost finished an analysis to determine if the new U.S. program of subsidies to protect agricultural producers are in violation of NAFTA. In an interview with a Mexican TV commentator, he said that through this study it will be possible also to determine if there are WTO violations. In case these violations exist, "we have the capacity to stop it immediately," Fox said. (Source: *El Universal*, 10/23/02)

NEGOTIATIONS TO PROTECT THE AGRICULTURE SECTOR

According to Secretary Luis Ernesto Derbez, Secretariat of Economy (SE), the GOM is promoting producer-to-producer safeguard agreements for agricultural products in order to minimize the negative impact of the disappearance of import duties in 2003. As a part of the "Agriculture armor" program, the SE is identifying the sectors that could be candidates to establish negotiated safeguards. Under these safeguards, the GOM explicitly details that it does not have the duty of establishing compensation to the parties adversely affected. This generates the double benefit of restraining imports without having to pay compensation.

Derbez also indicated that, thanks to the SE advice, the Mexican poultry sector already reached a quota agreement of reciprocal access for both markets with its counterpart from the United States. The next sector that SE is supporting is the establishment of a negotiated safeguard in the pork industry. Also, another strategy that SE is promoting is to establish price agreements, such as the tomato price agreements reached between United States and Mexican producers. Moreover, Derbez said that the GOM is designing new supports to the cotton industry. (Source: *Reforma*, 10/26/02)

MEXICAN AGRICULTURE ON THE POINT OF COLLAPSE

According to an article in a leading Mexican newspaper, the Mexican agricultural sector is on the brink of collapsing in the face of growing imports, principally from the United States. The presidents of the agriculture committees in the Lower Chamber and the Senate of the Mexican Congress have called for significant increases in the Ministry of Agriculture's (SAGARPA) budget, strict import controls on agricultural goods, and the renegotiation of the NAFTA agriculture chapter, in order to counteract the 2003 trade opening and increased U.S. farm subsidies. (Source: *Reforma*, 10/14/02)

CNA DEMANDS MORE SUPPORT FOR THE AGRICULTURE SECTOR

Armando Paredes-Arroyo, President of the Consejo Nacional Agropecuario (CNA), the Mexican Farm Bureau, stated that it is useless for the Mexican government's posture that it will not tolerate other countries' subsidies which adversely impact Mexico's trade relations. He expressed that instead of questioning the subsidies that the United States gives to its farmers, Mexico should increase its agricultural supports. On Tuesday, October 22, 2002, President Vicente Fox criticized American farm subsidies, during a press conference. "However, we do not believe that the situation will change, at least in the short-term, just because of this declaration," he said. "The Free Trade Agreement that we signed (NAFTA), maintains that country members have the right of supporting their farmers in the way they want," he said. Paredes-Arroyo also indicated that if the agricultural budget is not increased, between 700,000 and one million jobs could be lost in 2003. The agriculture sector budget requires an increase of 20 percent, in order to rescue productive and trade chains in this sector. If other countries are supporting their agriculture, Mexico will have to do the same. There is not another way of being able to compete," he added. "There is not another option. If more resources are not assigned, we will see a very complex panorama in 2003. Only implementing measures against unfair trade, will not be enough," he concluded. (Source: *Reforma*, 10/23/02)

INCREASED SUPPORT FOR THE AGRICULTURE ARMOR-PLATING IS ANALYZED

The Government of Mexico (GOM) foresees an increase from 700 million pesos (US\$70 million) to 5.0 billion pesos (US\$500 million) in the 2003 agriculture budget to support commodity prices through the Commodity Hedging Program (CHP) as a part of the "Agricultural Armor-plating Program," which is being designed to protect agriculture commodities facing competition from the 2003 trade opening. Omar Musalem-Lopez,

ASERCA's General Director of Financial Operations, stated that this budget increase is due partially to increased use of the CHP as a result of high volatility in the world market of grains and oilseeds in the past couple of months. "The conditions are ripe to generalize the use of this instrument. We had assigned 700 million pesos for 2003, which represents almost 8.0 MMT of grains and oilseeds covered by this program. Now we are thinking of increasing this figure to nearly 5.0 billion pesos," the ASERCA official said. At the same time, Francisco Mere Palafox, FIRA's General Director (a governmental agricultural trusteeship), states that this program is also channeling approximately 1,700 million pesos (US\$170 million) to cover interest rate risks. In this program, FIRA offers credits for a period of three to 10 years with fixed rates. (Source: *Reforma* and *El Financiero*, 10/25/02)

UNITED STATES REJECTS DIMINISHED AGRICULTURAL SUBSIDIES

U.S. Trade Undersecretary, Kathleen B. Cooper, stated that the United States will not diminish the agricultural subsidies in the short run. She recognized, however, that the United States knows the negative impact that the subsidies will have in countries like Mexico. Before Mexico's trade liberalization of most agricultural products next year, she expressed that President George W. Bush's administration is aware that the agricultural subsidies will be widely criticized. Cooper, who was in Mexico City to attend to the Womens International Forum, stated that for the United States, the trade with Mexico has great importance. She also pointed out the United States does not seek to damage Mexico's economy. She recognized, however, that Mexican agricultural producers have stated that they cannot compete against U.S. agriculture due to the subsidies that American farmers receive. (Source: *Reforma*, 10/24/02)

IRAQ ISSUE CHILLS U.S./MEXICO RELATIONSHIP

Mexicans privately described the meeting between Presidents Bush and Fox (during the last APEC summit), as a virtual dialogue of the deaf. While Fox talked about immigration and trade, Bush talked about Iraq, and his desire to secure Mexico's vote on the U.N. Security Council for a U.S.-sponsored resolution against Baghdad. Mexico believes Bush has broken virtually every promise he made during the early days of his administration. Far from regularizing Mexican immigration to the north, Bush has tightened the borders. There has been no guest-worker program, no adjustment in the status of any of the estimated three million Mexicans living illegally in the United States, and no regularization in transport rules. Instead of making it easier for Mexican agricultural exports to cross the border, the Bush administration has made it harder. (Source: *El Universal*, 10/29/02)

DEMAND TO STOP AGRICULTURAL POLICY OF THE MEXICAN GOVERNMENT

Members of the Pro Improvement Agriculture Council in Chihuahua requested that the

"Governors National Conference" (composed of governors of the PRI and PDR parties) intervene to stop the agricultural policy implemented by the Fox administration, which is viewed as a betrayed policy. They criticized President Fox because he has allowed industrialized countries to constantly violate the Free Trade Agreements signed by Mexico. They also complained that the new U.S. Farm Bill issued by President George W. Bush in May 2002, increases agriculture subsidies by approximately 70 percent (US\$183 billion) in six years. (Source: *Reforma*, 10/29/02)

MEXICO, JAPAN TO START FREE TRADE NEGOTIATIONS

Japan and Mexico announced they were beginning talks on a Free Trade Agreement, but acknowledged they could face conflicts over both nations' efforts to protect their farmers from foreign competition. At a joint news conference Sunday night, just after the Asia-Pacific Economic Cooperation meeting, President Vicente Fox and Japanese Prime Minister Junichiro Koizumi said their governments would launch negotiations at a meeting in Tokyo on November 18, 2002. (Source: *Reforma*, *El Universal*, and *The News*, 10/26/02)

FDA STOPS IMPORTS OF MEXICAN CANTALOUPE

The U.S. government stopped imports of Mexican cantaloupes on October 29, 2002, until it can certify they are produced in more sanitary conditions, a step taken because of repeated food-poisoning outbreaks linked to the imported melons. The Food and Drug Administration (FDA) said it was stopping imports before the fall season begins for Mexican cantaloupe, so that produce already on store shelves should not be affected. (Source: *Reforma* and *The News*, 10/29/02)

COURT INJUNCTIONS DELAY THE SELLING OF THE SUGAR MILLS

Due to the fact that several of the sugar mills that were expropriated by the Mexican government have court injunctions placed against them by the former owners, the mills cannot be sold until a decision is filed by the court. Since the delay will probably be beyond March 2003, the government will continue administering all the expropriated sugar mills. A Congressman indicated that now Mexico has no need to increase its export quota to the United States because sugar domestic demand is almost absorbing domestic production. (Source: *Financiero*, 10/29/02)

NO RELIEF IN SIGHT FOR MEXICAN PORK PRODUCERS

For Mexican pork producers, NAFTA has meant the loss of 30 to 40 percent in the number of producers, and the worst situation is being felt this year, with the increase in costs of more than 30 percent in the price of feed grains and the fall of pork prices caused by competitive imports. Consequently, many Mexican pork producers are leaving the business altogether. The main complaint is against pork legs and domestic producers are looking to file an antidumping suit against U.S. exporters with the Mexican authorities. (Source: *El Financiero*, 10/24/02)

COMPLAINTS AGAINST U.S. COTTON IMPORTS

According to a newspaper article, cotton is a clear example that subsidies determine agricultural competition instead of the efficiency. The article states that Mexico is one of the countries with greater yields per hectare in cotton (1.034 MT/Hectare) but production has decreased in the last few years due to the competition of subsidized United States cotton, where the yield is smaller (0.756 MT/Hectare). Moreover, Mexican cotton imports from the United States are duty free. As a result, imports of subsidized U.S. cotton have "Mexican growers against the wall." (Source: *El Financiero*, 10/28/02)

U.S. RICE EXPORTS DOMINATE MEXICAN MARKET

According to a local newspaper, as a consequence of the gradual elimination of trade barriers within NAFTA, 75 percent of rice consumed in Mexico is of U.S. origin. According to estimates from the Secretariat of Agriculture (SAGARPA), at the close of this year, rice imports will total 728,000 metric tons while domestic production will reach a little more than 241,000 metric tons. The United States was the only country allowed to export to Mexico because other producing countries could not comply with the phytosanitary standards demanded by Mexico. Now, rice exporters from Asia are beginning to satisfactorily comply with these standards, therefore, the preferential tariff rate which the United States has through NAFTA, and the attractive freight costs, will be crucial to maintaining their participation in the Mexican market. (Source: *Reforma*, 10/22/02)

U.S.-MEXICO NEED TO WORK TOGETHER ON 2003

Mexican Senator Alejandro Gutierrez states that the disappearance of import duties on agricultural products in 2003 will require "a system of equal participation" by both countries in the trade of those products. (Source: *Universal*, 10/28/02)

CONGRESS AWAITS FURTHER REPORTS ON GMOS

PAN Congressman Romulo Garza states that the Mexican Congress is waiting for detailed scientific reports on the benefits and problems of genetically modified organisms to then pass a "conscientious" biosafety law that will "prevent any harm" to the environment. (Source: *Reforma*, 10/28/02)

THE MEXICAN WINE INDUSTRY AT RISK

The Mexican wine industry is perhaps one of the few sectors that, by the quality of its products, can compete against U.S. wines on the upcoming market opening on January 1, 2003. Nevertheless, the Mexican market is threatened not by the quality of the U.S. products, but by its price and the transshipments that can be given. Luis Alberto Cetto Salazar, President of the National Wine Association, recognizes that U.S. wine could snatch 25 percent of the Mexican market. But, like other agro-industrial sectors where Mexico does not have a disadvantage with U.S. products, the main concern of this industry is the transshipments that can be done mainly through the U.S. border, with European wines. (Source: *Reforma*,

10/29/02)

CALLS FOR INCREASES IN MEXICO'S AGRICULTURAL BUDGET

Victor Suarez Carrera, director of the National Association of Commercial Agricultural Producers (ANEC), said that Mexico's agriculture budget should be increased from 35 billion pesos (US\$3.5 billion) to 60 billion pesos (US\$6 billion), and that a three-year reprieve on the repeal of agricultural tariffs under NAFTA should be granted as a way to counteract the effects of the U.S. Farm Bill. (Source: *Financiero*, 10/29/02)

FRUIT TRADE DIFFICULTIES

A newspaper article indicates that the compensatory duties imposed on U.S. apple imports were the first measures of the "Agricultural Armor" implemented by the Mexican government. Mexican producers expect that with this duty, domestic trade conditions will improve. (Source: *Reforma*, 10/23/02)

BARLEY PRODUCTION IN MEXICO NOT YET FEELING THE 2003 SQUEEZE

Barley producers have celebrated a contract with the malting and beer producing industries to purchase all of their grain for the next seven years, beginning in 2003, as long as the quality and sanitary conditions of the grain comply with industry standards. This contract will allow Mexican barley producers some breathing room against the opening of the borders in 2003. (Source: *Reforma*, 10/25/02)

MEXICO'S DEFICIT IN BREAD WHEATS GROWING

Mexico's wheat producers are concerned with the large imports of Canadian and U.S. wheat into Mexico and are worried about being displaced in their own market. Beginning in 2003, when tariffs are removed between the NAFTA partners, Mexico will not be able to compete with the supports and subsidies received by the Canadian and U.S. wheat producers unless they get similar help from the Mexican government. (Source: *Reforma*, 10/18/02)

MEXICO'S DAIRY INDUSTRY TURNS SOUR

Mexico's dairy products producers are concerned with the increasing imports of cheese, butter and butterfat and yogurt in addition to milk powder imports which have displaced the use of fresh milk in the dairy industry. The removal of import duties on milk powder imports in 2008 will add to the current problems suffered by Mexico's milk producers making them completely uncompetitive with milk powder and dairy product imports from heavily subsidized countries. (Source: *Reforma*, 10/17/02)

MEXICO'S TOBACCO INDUSTRY IN DANGER OF COLLAPSING

According to tobacco producers in Mexico, the commercial opening of the borders, high taxes, and the anti-tobacco campaigns are slowly hurting Mexican tobacco growers. In the State of Nayarit, close to five thousand producers directly depend on tobacco planting for their livelihoods. Domestic tobacco growers are worried that the free entry in 2003 of Canadian and U.S. tobaccos will also cause contraband of cheaper tobacco products made with tobacco from Brazil and Argentina to find their way into the country. (Source: *Reforma*, 10/24/02)

REPORTS SUBMITTED RECENTLY BY FAS/MEXICO CITY

REPORT #	TITLE	DATE
MX2151	Weekly Highlights & Hot Bites, Issue #36	10/23/02
MX2152	Mexico Announces an Increase to the TRQ for Milk Powder	10/24/02
MX2153	Final Rule on Health Provisions and Specifications for Select Dairy Products	10/25/02

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